

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

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Mt. Carmel Public Utility co.	:	
	:	Docket No. 13-0079
	:	
Proposed general rate increase for gas	:	
service and an electric rate design revision.	:	

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**REPLY BRIEF OF THE STAFF  
OF THE ILLINOIS COMMERCE COMMISSION**

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The Staff of the Illinois Commerce Commission (“Staff”), by and through its undersigned counsel, pursuant to Section 200.800 of the Illinois Commerce Commission’s (“Commission” or “ICC”) Rules of Practice (83 Ill. Adm. Code 200.800) and the schedule set by the Administrative Law Judge (“ALJ”), respectfully submits its Reply Brief in the above-captioned matter.

**I. INTRODUCTION**

Staff presents a response primarily to arguments made by Mt. Carmel Public Utility Company (“MCPU” or “Company”) in its Initial Brief (“IB”). For the sake of brevity, Staff will not address all arguments made by the Company. To the extent that Staff remains silent in this Reply Brief on any position previously taken, such silence should not be construed a waiver or withdrawal of said previous positions.

**II. GAS RATE DESIGN**

The Commission should accept Staff’s proposal to allocate any increase or decrease from current rates across-the-board within each customer class on an equal

percentage basis to the customer and therm charges. See Staff Ex. 4.0 at 7-8. Staff's rate design proposal is the superior option for both the short and long term for ratepayers, and is consistent with the Commission's prior findings on the issue. The Commission should reject the Company's rate design proposal. Id.

First, the Company chose not to file a new Cost of Service Study ("COSS") in this case in order to reduce costs. Staff Ex. 4.0 at 5. If the Company wished to propose a new rate design, then the Company should have filed a new COSS so that the Commission would have a basis for allocation of costs among the customer classes consistent with the company's proposed rate design. Further, the Commission has previously adopted an across-the-board rate design when there is insufficient information to justify a different rate structure (for example, when there is no COSS). Staff Ex. 4.0 at 13; see Final Order at 16, Cedar Bluff Utilities, Inc.: Proposed general increase in sewer rates, Docket No. 03-0398 through 03-0402 (Cons.) April 7, 2004; Final Order at 12, Sundale Utilities, Inc.: Proposed general increase in water and sewer rates, Docket No. 04-0637 August 9, 2005; Final Order at 11, Sundale Utilities, Inc.: Proposed general increase in water and sewer rates, Docket No. 08-0549 April 22, 2009; Final Order at 9-10, Northern Hills Water and Sewer Co.: Proposed general rate increase in water and sewer rates, Docket No. 10-0298 January 20, 2011.

The Company argues that this long-standing Commission practice should be ignored merely because the utilities in those cases either proposed or agreed to an across-the-board rate design while the Company does not support an across-the-board rate design in the instant case. MCPU IB at 10. This is a distinction without a difference. The Commission has clearly adopted an across-the-board rate increase when there is no

COSS in similar cases, and the evidence dictates that the Commission should do so again in this case. Without the COSS information, the Commission cannot know how to allocate costs between the customer charge or the therm charge.

Furthermore, rates should be based on cost of service because this provides customers with better price signals. Staff Ex. 4.0 at 13. Staff's proposal accomplishes this by apportioning the change in revenue requirement for each class on an equal percentage basis between the customer and therm charges pursuant to the Commission-authorized cost-based rate design approved in the company's most recent rate case. Id. at 12. This provides the Commission with an evidentiary basis for setting rates in future proceedings and provides more stable and gradual changes to the customer and therm charges. Id. at 13.

The Company, however, proposes to depart from the rate design the Commission approved in the last rate case, which was based on a COSS, without any cost basis for doing so. The Company claims to have based its proposal on ill-defined equities, cursorily-explained demographic considerations of the Company's customer base, and sources of competition with the company's gas operation. The Company also states that its proposal would allow customers to mitigate an increase by reducing or controlling their gas consumption. MCPU IB at 7-8. By making this argument, the Company acknowledges that its rate design proposal has no cost basis.

Next, the Company argues Staff's proposal would result in "rate shock." MCPU IB at 8. The record does not support the Company's argument. Although Staff's proposal includes a higher customer charge than that proposed by the Company, this will not result in customers experiencing rate shock. Quite the contrary, Staff's proposal increases the

customer charge by approximately 45.7% for both customer classes, which is a more gradual increase than the Company's proposed increase to the therm charge for both the Residential (59%) and Commercial (94%) classes. Staff Ex. 4.0 at 12-13; Staff Schedule 4.01.

Indeed, the Company's proposal has a significant potential to produce rate shock. The Company proposes to increase the therm charge for residential and commercial customers by 59% and 94% respectively without any cost basis for doing so. Staff Ex. 4.0 at 11. The Company allocates a higher amount of the increase to the therm charge, especially for Commercial customers. Since the Company has stated that it has not made any changes to its system or its business practices in the years since its previous rate case that would drastically alter the historical cost relationships from the previous rate case, the Company proposes a rate design that departs from the cost-based rate design approved by the Commission in that case by over-assigning costs to the therm charge. Staff Ex. 7.0 at 3. To the extent the Company is correct in its assumption that its historical cost relationships are not changing, there is good reason to expect that a future rate proceeding that allocates costs based on a COSS may result in a substantial increase to the customer charge, a substantial decrease to the therm charge, or both. Id. at 10-11. To knowingly depart from a cost-based rate design and potentially cause significant fluctuations in customers' rates from case to case could create customer confusions, send inaccurate price signals, and produce rate shock. Id.

The Company further argues that Staff's proposal "could translate into customers who have a customer charge that is higher than their usage charges." MCPU IB at 8. First, despite the Company's suggestion to the contrary, this is neither unusual nor a

source of concern. In fact, a similar rate structure has already been approved for use by Mt. Carmel by the Commission in Docket No. 07-0357, as shown in MCPU Ex. 4.0 under column D. MCPU Ex. 4.0. Additionally, the Company's own proposal produces a similar result. In MCPU Ex. 4.0, the Company provides bill impacts for various levels of customer usage. The Company's own proposal results in a higher customer charge than usage charge for customers with usage levels at 20 therms and 40 therms in column E.

The Company also argues that Staff fails to address the other rate objectives from *Gas Rate Fundamentals*, and argues that the Company's proposal achieves those objectives, including achieving the revenue requirement. MCPU IB at 8. First, the Company argues that the "Company's proposal allows the customer to have more control over how his or her consumption affects their bill and therefore is not confusing and does not cause rate shock". Id. at 8-9. These two statements, however, are contradictory; if customers reduced their usage thereby lowering their bills, then the Company would not earn its revenue requirement. Then the Company would have greater incentive to file for a rate increase upon the heels of this one.

Second, the Company argues that under Staff's proposal, customers could only control the customer charge by either cancelling service or simply absorbing over one half of the overall increase. Id. at 9. The Company's argument is flawed, however, and should be ignored because it assumes that all customers have the ability to reduce their usage. For those customers who cannot reduce their usage, the Company's proposal would result in substantially higher bills than under Staff's proposal.

Third, the Company complains that customers may cancel their gas service and utilize an alternative energy source, such as propane, instead since it has lower costs and

connection fees. Id. at 9-10. Although Staff is sympathetic to the Company's concern, this problem will always exist, and the Commission cannot continuously allocate most of any future increases into the therm charge to avoid this inherent problem. Further, the Company's request for anti-competitive "protection" from propane vendors is inappropriate, and should be ignored.

Fourth, the Company states that "for seasonal users, such as space heating customers, a high customer charge will create more disconnects and connects and therefore cause higher operating costs for the Company." Id. at 10. However, the Company acknowledges that the tariff terms and conditions restrict this action. MCPU Ex. 1.0R at 9. The Commission should not approve rate design meant to prevent seasonal disconnection/reconnection because the Company does not want to enforce its tariff provisions.

Given the lack of a COSS, the problems associated with the Company's rate design proposal and the benefits of Staff's rate design proposal, the Commission should adopt Staff's across-the-board rate design proposal utilizing the most recent COSS, which is consistent with past precedent.

### **III. CONCLUSION**

The Staff recommends that the Commission enter an order consistent with the limitations and qualifications expressed by the Staff in this Reply Brief and in accordance with its Initial Brief, previously filed.



WHEREFORE Staff of the Illinois Commerce Commission respectfully requests that its recommendations be adopted in their entirety consistent with the arguments set forth herein.

Respectfully submitted,

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